

# A Defense of Ratings

## Introduction

One of the more controversial issues often explored in any broad discussion of nonprofit accountability is the issue of ratings. Academics, accountability groups, charity watchdogs, and individuals express a broad spectrum of opinions on this issue. Wall Watchers is a nonprofit research organization that produces ratings on nonprofit organizations, specifically Christian ministries. This article is being written primarily to address the most common arguments against producing ratings on Christian ministries. In order to provide background and context to this defense, a brief introduction is offered for Wall Watchers and its 5 Star Ratings system. The remainder of the article discusses the issue of ratings by summarizing the basic reasons for producing them, and then addressing the most common arguments against producing them for Christian ministries.

## Background

### Who is Wall Watchers?

Wall Watchers is a Christ-centered, nonprofit organization committed to promoting biblical principles of stewardship and helping people apply those principles in their lives. The ministry currently operates two programs - MinistryWatch.com and thegoodsteward.com. The activities of MinistryWatch.com revolve around researching, evaluating, and rating Christian ministries in order to make useful information about those organizations available to the public. A web site ([www.ministrywatch.com](http://www.ministrywatch.com)) is the platform through which the research produced is delivered. Wall Watchers' second program, also known by its web site address ([www.thegoodsteward.com](http://www.thegoodsteward.com)), brings together articles written by the best writers, commentators, and teachers in the area of Christian stewardship to help inform and equip the Christian community. Wall Watchers does not charge for its services and is a public charity supported by donations.

### What are the 5 Star Ratings?

Incorporated within the MinistryWatch.com research program, the 5 Star Ratings are summary measures of a ministry's financial efficiency. The ratings are objective and relative. They are objective because they are derived from financial ratios that are based on financial information contained within a ministry's audited financial statements or its IRS Form 990. They are relative because they are based on a ministry's rank within a peer group. The purpose of the ratings is to provide a useful tool that researchers, donors, and nonprofit managers can use to assess a ministry's financial efficiency relative to its peers. The ratings are not intended as an endorsement, recommendation, predictive measure, or value judgment about a ministry's programs. Wall Watchers includes the 5 Star Ratings within its profiles of ministries carried on MinistryWatch.com. They are presented alongside ministry descriptions, organization details, general financial information, analyst comments, and other information obtained through Wall Watchers' research efforts.

# The Case For Ratings

## What are ratings?

Before engaging in a debate about ratings, it is important to define exactly what ratings are. According to one dictionary, a rating is simply a “classification according to a standard.” Two things are necessary to produce ratings. The first is a **classification** system. This system could use numbers, letters, names, or symbols to describe different classifications. The second is a **standard** for assigning the chosen classifications. A standard could take many forms. It could be simple or complex, objective or subjective, absolute or relative, quantitative or qualitative. The standard determines what traits or conditions will yield each classification. Ratings, then, are nothing more than the results of assigning things to classifications using a specified standard. *Understanding that ratings are nothing more than what is communicated in this simple definition helps one to see that many of the arguments against ratings are really just arguments against a **particular** ratings system and not arguments against ratings themselves.*

## What is the purpose of ratings?

The purpose of ratings is to summarize a large amount of information and to convey the result in an easy to understand form (a rating). Ratings are popular because many people lack the time, resources, skill, or desire to process a large amount of information themselves. Individuals use ratings to increase the efficiency of the decision-making process. Despite this obvious benefit, people will only use ratings systems that process information that is relevant to them, and which classify things according to a standard that is consistent with their own values and assumptions. In many cases, individuals use multiple rating systems to compare alternatives and make decisions because no single system meets their preferences exactly. Ratings, then, are simply tools of decision-making used in conjunction with other information relevant to an individual. They are valuable because they provide consumers with information that they may not have easily obtained on their own in a form that is easily understood.

## Why is Wall Watchers producing ratings on Christian ministries?

Wall Watchers has created the 5 Star Ratings system in order to improve the quality of information available about Christian ministries. This improvement benefits donors and ministries alike.

Donors benefit from the introduction of ratings primarily because they allow them to more efficiently process a large amount of information. When donors are able to incorporate more information into their decision-making process, they are able to make better-informed giving decisions. Better decision-making translates into better stewardship of the time and resources with which individuals are entrusted. (It is important to note here that although introducing ratings is an important step in the effort to improve the quality of information available, it would be foolish to suggest that it is the only step, or even the most important step. Increasing the availability of financial statements, annual reports, and other information about the activities of Christian ministries is just as important to improving the quality of information as providing new tools like ratings which allow this information to be processed more quickly and easily.)

Ministries benefit from the introduction of ratings for two important reasons. First, ratings can help ministries to evaluate their own practices and possibly identify areas for improvement. It is not often practical for a ministry to gather extensive information about other ministries for use in self-evaluation. Ratings can provide some of this information for them. Second, ministries benefit when donors feel more confident about their giving decisions. This is true because donors who are more confident are likely to give more. This is a benefit that can have a far-reaching positive effect on Christian ministry as a whole.

Because they increase the quality of information available about Christian ministries, ratings can empower donors, help ministries, and increase giving. It is for these reasons that Wall Watchers has created the 5 Star Ratings system.

# The Arguments Against Ratings

## Introduction to the Four Main Arguments

Many arguments have been put forth as to why ratings of Christian ministries should not be produced. While these arguments are often viewed as separate from each other, each one can usually be classified into one of four main arguments. These four main arguments can be stated as follows:

1. Ratings of Christian ministries are inconsistent with Christian principles. (They are bad by their very nature.)
2. Ratings of Christian ministries have a negative impact on the cause of Christ. (They produce bad consequences.)
3. Ratings are useless for the evaluation of Christian ministries. (They have no value.)
4. Ratings of Christian ministries cannot be produced fairly and objectively. (They are not possible.)

Throughout the remainder of this article, each of the four main arguments against producing ratings of Christian ministries will be addressed. For each main argument, examples of how the argument is usually made will be discussed.

## Main Argument # 1

### **Ratings of Christian ministries are inconsistent with Christian principles. (They are bad by their very nature.)**

This argument is probably the most important to address because if it could be shown that ratings are in fact inconsistent with Christian principles then no further argument would be necessary. However, this is also an argument that should not be made lightly since it requires one to make a judgment about what is right or wrong, not just about what is best or practical. This argument is essentially that ratings, due to their very nature, contradict the basic principles of the Christian faith. Two of the forms this argument takes will be addressed.

**Argument:** Ratings require us to assess ministries in a way that God does not want us to do.

#### **Wall Watchers' Response**

The argument is sometimes made that anyone attempting to rate a ministry is somehow exercising judgment upon it in a way that is inappropriate. This argument is based on a misunderstanding of what ratings are. According to the definition given previously, ratings are nothing more than classifications according to a standard. They are not, by definition, judgments of a ministry's eternal significance. Ratings simply establish a standard and communicate how a ministry is classified using that standard.

In an effort to encourage accountability within the nonprofit sector, several respected watchdog and membership organizations have established standards by which to assess nonprofits. These standards are often conveyed as operating principles that would be desirable in any nonprofit. Although these organizations would not consider their standards to be a rating system, they are nevertheless providing a way for organizations to be classified. Either an organization meets their standards, or it does not. Wall Watchers agrees that assessing an organization according to whether or not it conforms with a set of fixed standards is a positive step toward encouraging accountability, but also wonders how classifying organizations by another standard (i.e. producing financial efficiency ratings) is any different? Many donors use standards as an important criterion for determining whether or not to support an organization. Are we to believe that the final word has been spoken about organizational effectiveness? Or is the

increased availability of information and the tools to process that information a tremendous opportunity to improve the quality of information available to donors interested in being good stewards with their resources? Wall Watchers believes that donors should be able to decide for themselves what information they will use to make their giving decisions.

Producing ratings does not contradict God's directives. It recognizes that God desires us to be accountable to one another and to be good stewards with our resources. To this end, ratings can increase the opportunity for accountability and stewardship to occur.

**Argument:** Christians should rely on God alone for help in deciding to whom they will give their time and money.

### **Wall Watchers' Response**

Clothed in spiritual language, this is essentially an argument in favor of ignorant donors. The assumption that using ratings to help make a giving decision subverts or replaces a donor's ability to assess an organization within the context of his or her own values and vision for the ministry is simply false. When making other important choices in life, is it a responsible course of action to ignore any information that is obtained in a way other than prayer and reflection? Or are we encouraged to seek advice from those we trust, search the Word, and use our God-given gifts as well? Ratings are just another piece of information that can potentially help donors with their giving decisions. Donors always have the ability to choose which information they will take into account and what information they will disregard. This argument against ratings is akin to saying that people should not be encouraged to think when giving, but instead should simply rely on the Holy Spirit's inspiration to lead them. If this is the case, why do we bother with any attempt at accountability? Perhaps we should simply rely on the Holy Spirit to keep us from giving to organizations that should not receive our contributions. Wall Watchers believes that donors should be trusted with not only more information, but with different types of information, such as financial efficiency ratings. A better-informed giving population will only benefit the entire Christian community.

### Main Argument #2

#### **Ratings of Christian ministries have a negative impact on the cause of Christ. (They produce bad consequences.)**

The first argument focused on the nature of ratings. This argument focuses on the consequences of producing ratings. Even if ratings are not bad by nature, the argument goes, they produce consequences that negatively impact the Christian cause and so should not be produced. Two forms of this argument will be addressed.

**Argument:** Ratings create division in the Christian community because they diminish each ministry's uniqueness. This discourages cooperation and mutual respect among ministries.

### **Wall Watchers' Response**

It is difficult to understand how providing more information about Christian ministries cultivates division in this way. The argument often made here is that ratings cause division because they diminish the uniqueness of ministries. First, how do ratings affect a ministry's uniqueness? It is not difficult to see that each ministry can be considered "unique," just as it is not difficult to see that each person, or place, or animal, or company is also unique. Few things are exactly alike, so ministries are hardly unique in their uniqueness. Although ministries are unique, it is difficult to see how classifying them according to a common standard (i.e. rating them) diminishes their uniqueness in any way. The act of classification (or rating) involves an examination of a set of traits about something (determined by the standard) and then a description of how the thing being examined compares to the standard (resulting in classifications). This process of examination is very much like looking at the same thing that you have looked at many times before, but through a slightly different lens. This lens highlights aspects of the thing that you may not have

noticed before. This kind of examination cannot change the nature of something in any way. In fact, examination of a ministry in different ways will more than likely uncover new aspects of the ministry that make it seem even more unique. Though it may appear similar to one organization when examined using one lens, it may appear to be completely different when examined using another.

Second, if ratings do nothing to diminish a ministry's uniqueness, then how do they cause divisions among ministries? The answer is that they don't do this at all. Divisions between organizations are not caused by the attempts of others to examine them in new ways. True "division" can only occur between organizations when the organizations themselves allow it to occur. Furthermore, if cooperation and mutual respect are predicated upon a refusal to examine one another more closely, then this cooperation does little to encourage true accountability.

Although this response was primarily intended to address the argument that ratings cause a certain kind of harm in the Christian community, it is important to point out that ratings can in fact have a positive effect on the Christian community. It is when we choose to limit the amount of information available (not when we make more information available), or when we choose to look the other way when information is not flattering that we are truly doing the Kingdom a disservice. When information raises a question in a donor's mind, it is often much easier to argue that the information being examined is not relevant than it is to really try to understand the reason for the results. Ratings can benefit the Christian community because they provide an opportunity for donors to become more informed about a particular ministry or ministries. True respect and accountability is not achieved through mutual praise, but through asking the tough questions out of Christian love and desire for improvement. Are Christian organizations so incapable of organizational improvement that there is no need to compare themselves to one another and seek improvement in the ways they operate? Do we really believe that the principles of effective management and the tools of analysis cease to apply when we attach the name of Christ to an organization? It seems more likely that organizations are sharpened by increased analysis of their activities and that donors can serve an important role in providing feedback to the ministries they support when they are empowered with more information and better tools for analysis. Ratings are simply one such tool.

**Argument:** Ratings will cause competition in the Christian community.

### **Wall Watchers' Response**

To adequately address this argument, it is important to clarify what is meant by the term "competition." In the ministry world, the scarce resource over which ministries are most likely to compete is financial support. A limited amount of financial support is provided each year to ministries. In order to ensure that they have the resources necessary to carry on their work, ministries must continually demonstrate to current and potential donors how the work they are doing is deserving of continued support. To say that ratings cause competition between ministries in this area is ridiculous because it implies that this competition would not occur if ratings were not there. Competition for a limited amount of resources has existed and will continue to exist regardless of whether anyone decides to produce ratings on Christian ministries. Perhaps the important question to ask at this point is not whether ratings are the cause of competition between ministries, but whether or not this competition is necessarily a bad thing.

Competition is not a word that Christians should associate with evil and selfishness. Quite to the contrary, competition is what facilitates efficiency and innovation in our economy. Many would acknowledge the positive effects competition has had on the general economic growth of this country. Why shouldn't it produce similar results in the nonprofit sector? For example, let's assume that there exists a Christian ministry that has successfully accomplished its mission of feeding hungry children around the world for decades. The ministry is well respected, but as it has grown in size, it has lost some of its edge. Donors to this ministry hear about a new Christian ministry that uses innovative cost-saving strategies to feed more hungry children with fewer resources. This ministry also provides its donors with more opportunities to become directly involved in the process. As a result, some of the donors to the established relief organization begin giving to this new ministry instead. Should the new ministry be criticized for taking support away from the more established ministry? Should we prevent competition by mandating that only one organization be formed to feed hungry children? Clearly, the answer to both of these questions is no.

The point of this example is that competition for limited resources is not only unavoidable, but is a force for positive change in the nonprofit sector just as it is in the for-profit sector. Efficiency and innovation occur when donors allocate their contributions to those organizations that accomplish their mission in a way that is most consistent with donor expectations. Ratings are merely an information tool that donors can use to help them identify those organizations. Limiting the information and tools available to donors only limits their ability to make responsible choices.

### Main Argument # 3

#### **Ratings are useless for the evaluation of Christian ministries. (They have no value.)**

The first two arguments against ratings focused on reasons why ratings are inherently bad or produce bad consequences. The third argument takes a more passive approach. It argues that even if ratings are not inherently bad and don't produce bad consequences, they are basically useless. If they are useless, the argument goes, they should not be produced because producing something that is useless will only waste resources and cause confusion. Two forms of this argument will be addressed.

**Argument:** Quantitative analysis is not a relevant basis on which to evaluate nonprofits.

#### **Wall Watchers' Response**

This argument is similar to the argument that ratings place us in a position of judgment over ministries inasmuch as it is based on a fundamental misunderstanding of what ratings are and what they are not. If you will recall from our definition, a rating is merely an assessment of an organization according to a certain criteria (the standard of the rating system). A rating cannot give any indication of how an organization fares in any other criteria. It is concerned only with its own criteria. For example, the 5 Star Ratings system used by Wall Watchers attempts to assess an organization's "financial efficiency" as defined in that rating system. It tells nothing about changed lives, transformed minds, or saved souls. It was not designed to measure such things. This may beg the question about whether financial efficiency measures are relevant. To some, they may be relevant and to others they may not be relevant. The point is that it is up to the donor to decide if the rating is relevant. To say that it would never be relevant is to claim knowledge about the preferences of every donor. If a rating system is developed, and no one finds its results relevant, then that rating system will not be around for long. To claim that no ratings system based on quantitative analysis would ever contain information that is relevant to donors is quite presumptuous.

Wall Watchers believes that empowering donors with as much information and as many tools as possible is preferable to deciding for donors what they should consider important. In fact, Wall Watchers acknowledges that its rating system may prove to be irrelevant to donors. Ratings systems themselves are subject to competition. To use an example from the for-profit world, you can probably find as many ways to rate and evaluate stocks as you can find analysts to use those systems. It is one thing to argue that a particular ratings system does not examine the appropriate information. It is quite another thing to argue that the process of rating itself is inappropriate. As long as the act of examination has the potential to add value, the act of rating has the potential to add value as well.

**Argument:** Quantitative analysis may be useful to an organization's internal management, but is not useful to anyone outside of the organization.

#### **Wall Watchers' Response**

This argument demonstrates very little faith in the intelligence and common sense of donors. If it is acknowledged that organizations can benefit from financial analysis, why can't donors benefit as well? The only answer is that somehow donors are incapable of drawing accurate conclusions from the same information. Although there is always a need for increased education, keeping donors in the dark because they are not to be trusted does not seem to be a good way to improve accountability.

## Main Argument # 4

### **Ratings of Christian ministries cannot be produced fairly and objectively. (They are not possible.)**

The fourth argument against ratings relies the least on any theory or philosophy about ratings or ministries. It looks at the task of producing ratings and concludes that this task simply cannot be done properly. Even if ratings could be a useful tool for decision-making, the argument goes, it is simply not possible to produce them fairly and objectively for ministries. Therefore, ratings should not be produced. Three forms of this argument will be addressed.

**Argument:** Since ministries are unique, it is unfair to compare one to another.

#### **Wall Watchers' Response**

This argument relies on the same faulty premises used in the argument that producing ratings diminishes a ministry's uniqueness. Ministries are not unique in their uniqueness. Moreover, the fact that something is unique does not preclude it from being compared to something else. Two unique ministries often face similar challenges and deal with those challenges in different ways. Examining different ministries using the same standard provides insight into how successful each ministry has been at meeting similar challenges. Despite their uniqueness, ministries have a great deal in common with each other. Most ministries must seek financial support to carry out their mission. Most ministries must use assets such as buildings and equipment to conduct their activities. All ministries use people in some way to accomplish their mission. Comparing the ways that ministries perform these fundamental activities is one of the insights that ratings have the potential to provide. Ratings are not precluded by uniqueness. On the contrary, uniqueness increases the potential value of ratings.

**Argument:** Truly objective standards cannot be created for use in a rating system.

#### **Wall Watchers' Response**

The definition of ratings used throughout this article does not specify what types of standards must be used when producing ratings. The definition only requires that a standard exist. The fact that there is no single perfect standard to use in a ratings system does not render the act of rating fruitless. If the preferences of every donor were the same, then it could possibly be argued that one set of standards would suffice. However, every donor is unique and so any one ratings system will not be equally relevant to every donor. Wall Watchers believes that a fully developed nonprofit information marketplace will eventually offer donors a myriad of tools and ratings systems to help them with their giving decisions. It will be up to each donor to decide what factors are relevant to them and seek out the tools that allow them to assess those factors adequately. In fact, the standards employed do not even have to be objective. The 5 Star Ratings system used by Wall Watchers employs standards that are objective in determining financial efficiency, but this does not have to be the case. The point made many times throughout this article is that the purpose of ratings is to empower donors with useful information, not to determine for them what factors they should use when making their giving decisions.

**Argument:** The data available on nonprofits is not suitable for producing ratings.

#### **Wall Watchers' Response**

We live in a world of imperfect information. This is a fact of life that will always exist to some degree. However, to ignore information because it is incomplete or imperfect will only leave us in a state of ignorance and paralysis. If we are not using the information that is currently available to us, imperfect as it may be, what impetus will exist for improving the quality of information in the future? Unfortunately, information (especially financial information) about nonprofit organizations is much more difficult to

obtain and much less reliable than the information available from for-profit organizations. Because investors in for-profit companies place such a high premium on good information, improvements are continually being demanded and realized in the availability and quality of information about companies. If donors wishing to improve their decision-making demand better information with equal fervor, then the availability and quality of information about nonprofits will improve as well. Creating a well-informed giving population is a long-term goal. However, this goal will not be accomplished if we allow imperfect information or a lack of faith in individual donors to freeze us into a state of developmental paralysis.

## Summary Comments

This article has attempted to articulate a fundamental belief in the ability of information to empower individuals and facilitate positive change. Because ratings are essentially just another piece of information, they are just as capable of doing this as any other piece of information. It was noted at the outset that opponents of ratings often make their arguments based on a false understanding of what ratings really are, so a clear definition of ratings was offered. The reasons for producing the Wall Watchers 5 Star Ratings system were offered to provide a glimpse into how one organization believes ratings can have a positive impact upon the nonprofit environment. The rest of the article addressed each of the main arguments against producing ratings on Christian ministries. Although many reasons are often given, there are four fundamental arguments typically offered. In the course of addressing each of these arguments, an attempt was made to keep the focus of the debate on a big picture view of ratings and how nonprofit accountability and stewardship are achieved in the long run. This article was not intended as a defense of one specific ratings system, but as a defense of the very act of producing ratings. This article was not intended as a defense of ratings as the only legitimate basis upon which donors should make giving decisions, but as a defense of ratings as one tool that can be used when doing this. At the end of the day, Wall Watchers is in favor of any tool that places more information in the hands of donors, because it is only when donors are truly empowered that real accountability and real stewardship can occur.

